Internet Strategies for Established Retailers: Five Case Studies from New Zealand

Bill Doolin, Bob McQueen and Mark Watton
INTERNET STRATEGIES FOR ESTABLISHED RETAILERS: FIVE CASE STUDIES FROM NEW ZEALAND

Bill Doolin, Bob McQueen and Mark Watton

2003 © - Copyright of the Author(s)

Bill Doolin*
Microsoft Professor of eBusiness
Faculty of Business
Auckland University of Technology
Private Bag 92006
Auckland
New Zealand
Tel: +64-(0)9-917-9999 x5910
Fax: +64-(0)9-917-9629
e-mail: bill.doolin@aut.ac.nz
*Author for Correspondence

Bob McQueen
Professor of eCommerce Technologies
Waikato Management School
The University of Waikato
Private Bag 3105
Hamilton
New Zealand
Tel: +64-(0)7-838-4126
e-mail: BMCQUEEN@waikato.ac.nz

Mark Watton
Waikato Management School
The University of Waikato
Private Bag 3105
Hamilton
New Zealand
Contact through corresponding author

Please refer to the website for information about Enterprise and Innovation Research Papers of the AUT Faculty of Business, information about and downloads of the latest papers:

http://www.aut.ac.nz/business/enterprise

The opinions and views expressed in this paper are those of the author(s) and not necessarily those of AUT of the General Editor or Review Panel of Enterprise and Innovation.
PROFESSOR BILL DOOLIN

Bill joined Auckland University of Technology in August 2002 as the Microsoft Professor of eBusiness. Based in the University’s Faculty of Business, Bill plays a senior role in coordinating teaching and research in this area. His research focuses on the processes that shape the use and adoption of information technologies in organisations. Lately, this has been in the context of electronic business.
INTERNET STRATEGIES FOR ESTABLISHED RETAILERS: FIVE CASE STUDIES FROM NEW ZEALAND

ABSTRACT

This paper reports the findings of research on the strategic responses of established retailers to the challenges and opportunities offered by the Internet and the development of electronic commerce. The paper identifies a range of factors that influence the adoption of Internet retailing and presents a simple framework for categorising Internet strategies based on five case studies of New Zealand retailing companies.
INTRODUCTION

Electronic commerce offers the possibility of extending or reinventing existing business models as well creating new ways of doing business, based on the openness and connectivity of the Internet (Timmers, 1999). Many of the opportunities in electronic commerce lie in the application of information, communication and network technologies to the different stages of the value chain involved in the production and distribution of products to customers, and to the linkages between them. Innovative strategies exploit features of the Internet and World Wide Web, such as real-time communication, cost-effectiveness, ubiquity and global reach, information-richness and multimedia capability, and a user-friendly interface, to create new value propositions for customers (Kalakota and Robinson, 2001; Riggins, 1999).

Retailers are increasingly using the Internet to market either conventional or digital products. Some merchants operate exclusively over the Internet, while others complement their physical distribution channels with a virtual storefront. It is these latter, so-called “bricks and clicks” or “clicks and mortar” merchants, which form the main subject of this study. The research studies the reaction of established New Zealand retailers to electronic commerce. The intention is gain an understanding of organisational strategies with respect to the Internet through the experiences of these New Zealand companies. Five established retailers were studied.

The structure of the paper is as follows. First, existing literature on Internet retailing is discussed. The method used in the study is then presented. Each of the five case studies is briefly summarised. An analysis of the factors that were influential in the companies’ development of an Internet retailing presence follows. Based on the findings of the case studies, a tentative framework is developed that categorises Internet retailing strategies along two dimensions.

INTERNET RETAILING

The recent trend in business-to-consumer electronic commerce has involved many existing retailers developing an online retailing presence (Elliot, 2002). Partly this
relates to the tightening of venture capital availability in the wake of the dot com “crash”, and partly to the relatively slow awareness of these established companies to the potential use of the Internet as a retailing channel.

Many established retailers are developing Internet-based channels by which to market and sell their goods. In doing so, they gain the ability to use this new channel while retaining their existing physical presence in their market. Existing retailers may be best placed to make the move into electronic commerce. Unsustainable “pure play” Internet retailing business models are disappearing as virtual enterprises with viable strategies consolidate or form alliances with traditional retail partners. Many are adding additional, physical, channels. Multichannel retailing is becoming the dominant model (Barsh et al., 2000; Dennis et al., 2002).

Established retailers bring with them many advantages in going online. Becoming multichannel retailers allows them to leverage their existing brands and customer base. Available resources, whether financial or in terms of market knowledge, are likely to be higher than Internet start-ups. The high cost incurred by an Internet-only retailer in acquiring customers places them at a distinct disadvantage compared to existing retailers when establishing themselves in the market. For established retailers, the opportunities for cross marketing between physical and virtual channels helps to minimise this cost. Many of the competencies developed by an established company in its traditional retailing operation may also be transferable to online retailing. This includes expertise and experience in order fulfilment and a distribution infrastructure.

Of course, there are also difficulties in moving online for established retailers as well. Decisions on the extent of product range to make available online, together with appropriate pricing strategies for both Internet and traditional channels, are two examples. Potential channel conflict is another major management issue for companies using both traditional and Internet-based channels.

DeKare-Silver (2001) and Shaw (2000) present various channel management strategies that retail companies can adopt in order to enter the electronic commerce area. Each of these strategies requires a different level of Internet technology
adoption and integration. These strategies include use of the Internet to enhance the marketing of existing channels, expanding into or exploring new (often global) markets, creating a separate Internet-based channel and related infrastructure, integrating the Internet channel with existing channels and operations so that customers can choose between complementary channels, collaborating in a joint venture or alliance with an Internet-based company, and moving to Internet-only sales as the electronic operation grows or the industry changes.

To take advantage of this new medium, established retailers need to adopt strategies that address the Internet while retaining the commercial viability of their existing operations (DeKare-Silver 2000). The clear message to emerge from the literature is that for a company to develop a presence in the online environment, careful consideration needs to be given to the direction, strategy and expectations of performance before any development work is undertaken. Gulati and Garino (2000), DeKare-Silver (2001) and Riggins (1999) agree that strategy is at the core of any successful Internet retailing development.

Movement into the Internet retailing area is not for all companies and product types. Companies should take into account the suitability of their products to the online environment, especially in the way in which the products are presented and experienced in this virtual environment, as well as the percentage of their target consumers who are likely to have access to the Internet and be inclined to shop online (DeKare-Silver, 2000). Managing the trade-offs between separation and integration is an important requirement for existing retailers moving online (Gulati and Garino 2000). Gulati and Garino (2000) conclude that there are more advantages to be gained from integrating electronic commerce into a “clicks and mortar” type structure than separating out this area of business.

Earl (2000) takes an evolutionary approach to the transition from traditional business to an electronic business. He presents a framework that includes a number of key steps undertaken by companies when developing their business strategy to include the electronic business environment. Earl (2000) suggests that companies tend to begin with a static Web site that provides company information and which signals that they can be a “modern” company. Building on the knowledge gained,
companies evolve their Internet presence to an interactive electronic commerce site, providing a new channel for retailing products. Earl (2000) suggests that companies at this stage of development need to develop a good channel strategy: “Rarely is this a question of selecting either electronic or traditional channels but of balance and relative positioning of both giving choice to customers” (p. 35).

Further development involves the re-design of business processes to integrate front office electronic commerce technologies with back-office systems. The bringing together of Internet commerce and IT systems allows the company to develop a combined strategy to take the company forward (McKay et al., 2000). Infrastructure development is typically done at this stage, as companies are forced to examine their order fulfilment capabilities. Ensuring that the company can provide the expected level of service and delivery from their customers is important. Indeed, this is one of the reasons that the virtual merchant, Amazon.com, developed a physical presence, building an infrastructure of warehouse and distribution centres in order to maintain quality of customer service (Dhillon et al., 2001).

METHOD

New Zealand is a country with a small domestic market and a high degree of technology adoption when compared to the rest of the developed world (Wallace et al., 2001). Currently the New Zealand retail sector is the most rapid adopter of Internet technology, making it an ideal context for this study. Five established retailing companies were selected for study to provide a range of retail markets and business environments (Table 1). The companies selected for this research needed to be large enough in both turnover and supplier network for electronic commerce to potentially impact their operations.

The research method used in the study involved semi-structured interviews of selected members of the case study organisations who were in a position to give a detailed account of the electronic commerce initiatives of their company. The interviews, conducted over a 2.5 year period from August 2000 to February 2003, are summarised in Table 1. A review of available organisational documents and relevant documentation in the public domain was used to supplement the interviews.
Table 1: Data collection

<table>
<thead>
<tr>
<th>Company</th>
<th>Retail sector</th>
<th>Turnover NZ$million</th>
<th>Products online</th>
<th>Interviewee</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>AlphaCo</td>
<td>Apparel</td>
<td>100</td>
<td>600</td>
<td>E-Commerce Manager</td>
<td>Aug 2000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chief Information Officer</td>
<td>Dec 2001</td>
</tr>
<tr>
<td>BetaCo</td>
<td>Consumer electronics</td>
<td>130</td>
<td>10,000</td>
<td>Chief Information Officer</td>
<td>Sep 2000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chief Information Officer</td>
<td>Nov 2001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chief Information Officer</td>
<td>Jan 2003</td>
</tr>
<tr>
<td>GammaCo</td>
<td>General merchandise</td>
<td>1,800</td>
<td>2,500</td>
<td>Chief Information Officer</td>
<td>Nov 2001</td>
</tr>
<tr>
<td>DeltaCo</td>
<td>Groceries</td>
<td>1,600</td>
<td>14,500</td>
<td>E-Commerce Manager</td>
<td>Dec 2001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E-Commerce Manager</td>
<td>Feb 2003</td>
</tr>
<tr>
<td>EpsilonCo</td>
<td>General merchandise</td>
<td>800</td>
<td>600</td>
<td>Chief Financial Officer</td>
<td>Dec 2001</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>E-Commerce Manager</td>
<td>Jan 2003</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Webmaster</td>
<td>Jan 2003</td>
</tr>
</tbody>
</table>

The interviews were structured around a series of questions related to the strategic approach of each company towards Internet retailing, the process the company went through in deciding to establish an online retailing presence, the people and events that helped shape that strategy, the implementation process, issues that arose in moving retail operations online, any changes to the organisation structure as a result of moving online, lessons learned by the company from its venture into electronic commerce, and the company's future intentions and plans for their Internet retailing initiative.

CASE STUDIES

A brief description and summary of each of the five case studies conducted is now presented. Based on these findings, factors that influenced the development of an online retailing presence in the companies are presented and a framework for categorising Internet strategies for established retailers is synthesised.

AlphaCo

AlphaCo is a successful apparel retailer that has developed from a catalogue-based background. The majority of the company’s turnover is generated from its original mail-based catalogue sales market, although the company now has four physical stores, indicating a stronger move into the physical retailing area. AlphaCo started
with a conservative approach to the Internet, their strategy being to develop a basic Web site for the purposes of testing the market and raising brand awareness.

In the 1990s, the company identified that interaction with both suppliers and customers using Internet technologies was a critical area of development if the company was to grow on both a local and global scale while keeping costs down. Customer interaction through an Internet retail channel offered a valuable opportunity to develop into the electronic commerce area while generating revenue. The company felt it was well placed to take advantage of the Internet through leveraging the existing supply and distribution infrastructure established for its traditional sales channels.

An initial review found that the company’s information technology infrastructure was unable to support a comprehensive move into electronic commerce. Initially, a simple Web site presence was developed to investigate this emerging area and to raise existing customers’ awareness of the Internet and the possibility of a new sales channel. The company viewed a lack of computer literacy among its core customer base as a limiting factor that could affect growth. Rather than educate its core customers, the company has chosen to allow the natural development of skills to take place in the market.

By 2001, the focus shifted towards infrastructure development to support the Internet development. The company initiated a major investment project that involved the replacement of the existing internal systems with re-engineered information systems and business processes that would allow the company to operate as an integrated channel retailer. The company’s Web site is being developed into a complete online sales channel, integrated with the company’s retail presence and call centre in the overall business strategy. Approximately ten percent of the total turnover is now generated through the Internet sales channel. Capturing additional customers and shifting existing customers from the catalogue to Internet also proved to be benefits of this approach.
BetaCo

BetaCo started as a catalogue-based company and has evolved into the largest physical retailer of consumer electronics in New Zealand, with some fifty stores nationwide. The company has a conservative approach to the adoption of new technology and wanted to observe the shifts and changes occurring in the area of electronic commerce before moving forward. The company identified the Internet as a chance to give a large potential customer base access to information about its product range. It purchased an off-the-shelf electronic commerce application to establish a presence on the Internet quickly and cheaply.

The primary objective was to provide a product information resource that customers could access irrespective of location. As a result of this product information being provided via the Internet, both revenue in the stores and the size of the customer base increased. Customers frequently use the Web site to gather information about the products before using the physical stores to examine and purchase the products:

The benefit to us is not directly in online sales. It's through increased sales through our stores and reduced support requirements in terms of those customers who have found the information out for themselves on our Web site. (Interview with CIO, BetaCo, November 2001)

As the number of people accessing the company's Web site increased, customers started to enquire about using the Internet rather than the mail-based catalogue channel for non-store purchases. The company decided to rethink its strategy about the use of the Internet, and consequently went through a process of development to take advantage of an Internet retailing channel. The company leveraged its existing mail order infrastructure to build the new Internet-based channel. This system was currently handling orders from a variety of channels – fax, phone and email – and little modification was required to allow the addition of online ordering. Developed from the original basic Web site, new levels of functionality were added allowing for better search response, current stock availability and the ability to purchase some ten thousand products online.
By subsuming this new channel into their existing sales infrastructure, BetaCo allowed the Internet channel to take some of the prior mail-based catalogue turnover. While the company acknowledges that it needs to provide some degree of Internet retailing presence for the group of its customers that want to use this service, it also remains focused on the initial objective to use the Internet as a tool to provide information to customers with the intention of getting them into the stores:

We had a pretty good feel or technical understanding of what the Internet could be used for, and realistically for us it was always another medium for publishing our catalogue and getting product information out before the customers [so they can] research our products. That focus has continued and, as we expected, sales are constantly picking up and progressing. It’s probably following the traditional curve of uptake and acceptance and confidence and service. (Interview with CIO, BetaCo, November 2001)

**GammaCo**

This company is a large New Zealand retail group consisting of five distinct businesses. Its two largest New Zealand operations are a chain of some eighty general merchandise stores and a smaller retail operation based around MRO office supplies. Collectively, the group has adopted an experimental approach to the challenge presented by the Internet. It deliberately chose to develop an Internet retailing strategy in one part of its operations – the office supplies business. The rationale for selecting this particular business centred on the opportunity to enter a new market segment, corporate sales, using the Internet.

Within the office supplies operation, an integrated channel strategy was adopted. Customers can interact with the business by telephone, the Internet or in any of over thirty stores around New Zealand. Customer relationship marketing applications are used to track how customers are interacting with the business across the multiple channels. Order status can be checked across any of the channels, irrespective of the initial mode of customer contact:
The reality is it's the about customer choice. You make it convenient to the customer. One day they feel like coming through the call centre, then another day they want to go on the Web, and another day they want to go into the store. All the systems are designed to reflect that. (Interview with CIO, GammaCo, November 2001)

The intention is to build a multi-channel capability for the group. The advantages of the experimental approach are seen as relating to the learning process, the ability to incrementally implement the strategy in financially feasible areas, and the rapid pace of technological change in electronic commerce:

From quite small beginnings we’ve gone through a learning process, got used to the technologies, and we may want to scale them to [other operations] and start providing business capability there in a very integrated way … The knowledge we’ve gained allows us to leverage those skill sets. (Interview with CIO, GammaCo, November 2001)

*DeltaCo*

DeltaCo is a well-established grocery retailer with a large chain of over eighty stores throughout New Zealand. Their initial venture as an online food retailer utilised a third-party Web development company that had put together a virtual mall and required a large retailer to anchor the site. DeltaCo became involved because they saw the Internet as an emerging channel, one they wanted to examine and understand so that they could develop an appropriate strategy in relation to it. The company released a simple online store to market its product range. The infrastructure to support the site was provided by the mall vendor, with the company providing limited product information. This was a cheap and cost effective way for the company to develop a presence within the market at little risk to their existing business.

After two years, the decision was made to withdraw from the business partnership with the mall developer and develop their online presence in-house. In doing so, the company was able to build on the experience it had gained during the two year period spent in the virtual mall:
We got a lot of learning out of it in terms of the management of remote orders, what the customers are thinking about, what was good and what was bad, what the costs were involved in it, how the business model needed to take shape in terms of moving it forward for this to work both for our customers and for our business. (Interview with E-Commerce Manager, DeltaCo, December 2001)

The current business model has the online business operating as a separate channel, resulting in some degree of channel conflict. To address this issue of channel conflict, each online transaction is processed and delivered by a local store. The store receives the income from this transaction, providing the motivation to support this new channel. Also the turnover from each of the stores can be separated into physical and online components, preventing poor performance figures from impacting on the wrong business channel. This use of local distributors differs from the approach followed by many of the large online food retailers to use centralised dispatch plants that service huge geographic areas with limited success.

Thought has been given to the development of a separate virtual business out of the online division of the company in the future if the consumer interest rises to a level capable of sustaining this type of enterprise. DeltaCo may even enter other retail markets in the future, but only after careful consideration of the effects on their core business. The company is in the process of developing their information technology systems up to a level that are able to better support their electronic commerce presence. Future electronic business development may need to wait until the existing systems are improved.

EpsilonCo

EpsilonCo is an established general merchandise retailer with some sixty stores located throughout New Zealand. The company has been trading for over ninety years and sells a range of products from apparel to appliances and furniture. EpsilonCo was slow to react to the Internet, developing a simple Web presence in the late 1990s only in response to instructions from its overseas owners:
If you go back to the early days of the Web emerging there was a fairly big discord between the sort of oak-panelled executive offices ... and this new-fangled Web thing. And we were slow off the mark, I think, during that phase when people thought the Internet was going to change the world as we know it ... The thing that slowed us down was more the fact that we were a ninety-year old retailing company ... In fact, the then chief executive was something of a technophobe. (Interview with E-Commerce Manager, EpsilonCo, January 2001)

The Web site was initially designed as a static “brochure-ware” site and offered no transactional capability. As the Web site was marketed widely in other aspects of the company’s operations, this led to a degree of unfulfilled customer expectations. The geographic coverage of the company’s retail stores and the department store nature of their customers’ shopping (browsing for multiple products as opposed to shopping for a specific known product) provided little incentive to sell products online.

In 2000, EpsilonCo formulated a new strategy towards Internet retailing. In this strategy, the primary objectives of the company’s Web site were to support the existing physical retail operation by increasing the number of customers through the chain of stores, and to retain customers through better customer relationship management. Increasing overall sales through the introduction of online sales was a less important objective. A limited range of products were offered for sale online, including a range of specials that matched those distributed in promotional mail-outs throughout the country. The number of product lines available has only recently increased from one hundred to six hundred.

The relatively small number of online sales use the same order fulfilment process as the company’s phone-based mail-out sales, with goods being dispatched from local stores (if in stock) or shipped from elsewhere in the country. Control of the Web site has subsequently been brought in-house, and a content management system installed to allow dynamic changes to product availability and pricing to be made. Pricing is the same across all sales channels, as the main objective continues to be increasing customer traffic through the company’s network of physical stores.
Internally imposed financial constraints limited the development of an Internet retailing channel within EpsilonCo. A conservative approach to the Internet, reinforced by much publicised Internet venture failures overseas, contributed to this situation. Return on investment is strongly emphasised within the company. Increased sales through the Web site would need to be generated, or the effectiveness of the Web site in increasing store sales demonstrated, before further investment is made available.

DISCUSSION

Five New Zealand companies were studied in order to gain an understanding of their development towards integrated electronic business. Analysis of the data from these companies highlighted a number of factors that were influential in their decision to develop an Internet retailing presence. Consistent with Elliot (2002), these factors included both drivers and inhibitors of the Internet ventures. The factors are summarised in Table 2.

The companies studied tended to be followers, rather than leaders, in Internet retailing. The example of overseas companies who pioneered or led Internet retailing in a particular sector was a major influence in four of the companies studied. For example, the decision of grocery retailer DeltaCo to attempt Internet retailing was influenced by early developments in the US such as PeaPod, EpsilonCo and GammaCo were very aware of WalMart’s Internet operations, while AlphaCo closely followed the progress of large US catalogue retailer, Land’s End.

The presence of in-house technical expertise or active scanning of the environment for new technological opportunities was another important factor facilitating the development of an online retailing capability in half of the companies studied (BetaCo, GammaCo, DeltaCo). For instance, the existence of staff within BetaCo who had “played around with the Internet way back” meant that the company had a “good feel or technical understanding of what the internet could be used for” (Interview with Chief Information Officer, BetaCo, September 2001).
Drivers

1. Overseas trends and firms (A,G,D,E)
2. In-house technical expertise or technological scanning (B,G,D)
3. Parent company directive or support (D,E)
4. Approach by third-party provider (B,D)
5. Leveraging existing brand (B,E)
6. Acquiring Web-based operation (A)
7. Product characteristics (B)
8. Customer perception or demand (B)
9. Capital constraints (E)

Inhibitors

1. Consumer or market characteristics (A,D,E)
2. Conservative approach to new technology (A, B, E)
3. Perceived risk of new technological development (D,G)
4. Published Internet retailing failures (B,E)
5. Lack of in-house technical expertise (A,E)
6. Inadequate IT infrastructure (A,D)
7. Limitations of available technology (G)
8. Channel conflict (D)

Table 2: Factors influencing Internet adoption by established retailers

Key: A = AlphaCo, B = BetaCo, G = GammaCo, D = DeltaCo, E = EpsilonCo

Other drivers included the support (DeltaCo) or direction (EpsilonCo) of a parent company, the unsolicited availability of a third-party provider as a partner in developing an Internet retailing channel (BetaCo, DeltaCo), the acquisition of a Web-based operation overseas (AlphaCo), and the opportunity to leverage a brand that was well-established in more traditional sales channels (BetaCo, EpsilonCo). For consumer electronics retailer, BetaCo, the information-intensive nature of their technical products and customer demand for online purchasing were additional important drivers in moving online. Also influential was the “need to be seen to be leading in technology”:

We are a technical company, and we understand that in the market perspective people see us as technical, and therefore expect a level of technical awareness. (Interview with Chief Information Officer, BetaCo, September 2001)

Technology was a major inhibitor or barrier that needed to be overcome by the companies in the study in moving online. For example, a lack of in-house technical expertise was important influence in delaying the development of an online retailing capability in AlphaCo and EpsilonCo. Similarly, the limitations of the existing information technology infrastructure inhibited Internet retailing in DeltaCo and in
AlphaCo. The need to integrate the Web site with backend systems in order to reflect changes in product lines, prices and availability was an important constraint in the case of AlphaCo:

Web development … [and] the maintenance of that is outsourced. At the moment we just could not handle it … We are building up in-house knowledge of the system at the present, although we are not actually doing the work ourselves. We are following [technology as it moves along]. We probably don’t want to be on the edge, mainly because our backend is a legacy system and it does limit us to what we can do. (Interview with Chief Information Officer, AlphaCo, December 2001)

A number of factors inhibiting Internet channel development were associated with attitudes towards new technology. Data collected from two of the companies studied (DeltaCo, GammaCo) suggested that the perceived risk associated with developing new technological applications was a significant barrier to participating in Internet retailing. Company management of AlphaCo, BetaCo and EpsilonCo apparently had a conservative approach to adopting new technology. The Chief Information Officer of BetaCo further suggested that the dot com “crash” meant that a more cautious analysis of the potential benefits from electronic commerce initiatives was required in the company. Similarly, any Internet sales channel in EpsilonCo needed to prove its viability before significant resources would be invested.

The characteristics of a company’s target market were important inhibitors in three of the companies studied. Grocery retailer, DeltaCo, was constrained by the small New Zealand market, while AlphaCo felt that the relatively low percentage of its target consumers who were online shoppers limited the growth of its Internet sales channel. A focus on domestic customers, the relatively small number of customers who could not access a company store, and the type of shopping those customers performed, discouraged development of an Internet retailing channel for EpsilonCo. Other barriers or inhibitors reported in the study included the limitations of the technology available at the time (GammaCo) and the risk of channel conflict (DeltaCo).
The principal objective of this study was to develop a framework for categorising how established retail companies are adopting Internet technologies. Based on the findings presented earlier, a simple two-dimensional framework can be constructed. One dimension is related to the degree of Internet channel integration involved in the Internet retailing strategy adopted. Three major approaches to channel management were identified from the case studies: (1) the use of the Internet as a marketing channel to support and reinforce existing traditional sales channels; (2) the separate development of an Internet-based sales channel, recognising the different competencies required for Internet retailing or to exploit a different product; and (3) the integration of Internet-based sales into the existing retail operation, providing customers with a seamless retail storefront that enables them to move from one channel to another.

The second dimension relates to the degree of business transformation involved in the Internet retailing strategy adopted. Again, three major approaches were identified: (1) evolutionary change, in which the company takes a conservative approach to the Internet, largely in response to changes in technology or customer requirements; (2) an experimental strategy, in which the company deliberately chooses to adopt a less cautious approach, but one constrained by product range or business unit, in order to learn by experience; and (3) revolutionary change, in which the company undergoes a more radical transformation of business processes or even business scope (cf. Venkatraman, 1994).

The resultant framework is shown in Figure 1. Each of the five established retailing companies studied is shown in the appropriate part of the framework corresponding to its Internet retailing strategy. The findings from the case studies suggest that a company can reposition its Internet retailing strategy over time. This is shown in Figure 1 using broad arrows.
For example, BetaCo continued its evolutionary approach to the Internet, building on its initial support role for the Internet channel to include online sales in an integrated retail business strategy. EpsilonCo followed a similar path, but with online sales essentially forming a separate channel in relation to the company’s physical stores. By comparison, AlphaCo initially adopted an experimental strategy towards the Internet, although always treating online sales as just one of its many sales channels. McKay et al. (2000) suggest that for a company to reach electronic business maturity it must ensure that its Internet commerce development keeps pace with its information technology infrastructure development. AlphaCo found that they had developed as far as their existing infrastructure was able to take them, and that further development required a more revolutionary strategy to re-engineer their information and business systems.

It is important to note that the framework depicted in Figure 1 is not intended to imply a sequence of stages that a company must pass through to reach a given
endpoint. Rather, the various areas of the framework offer a range of possibilities or phases (cf. Chau and Turner, 2002) that a company may inhabit at any one time.

It is interesting to speculate on the possible relationship between the factors identified in Table 2 and the type of Internet strategy adopted by the retailers in this study. For example, did the desire to leverage their existing brands encourage BetaCo and EpsilonCo to follow an evolutionary strategy towards the Internet, based initially on supporting their traditional retailing operations? Was this incremental approach also a reaction to the various Internet venture failures publicised in the media? However, such questions fall outside the scope of this study. They require a larger-scale empirical survey of retailers and their motivations for moving online. This study was exploratory in nature, and sought to highlight potential factors for further research and to develop an empirically-derived framework of Internet retailing strategies.

CONCLUSION

As Elliot (2002) observes, success in Internet retailing requires a complex interaction between various organisational, environmental, technical and market-related factors. This study has highlighted a number of factors that may influence how an established retailer responds to the Internet. Important drivers for developing an Internet retailing operation are likely to be the example set by Internet pioneers or leaders, a good understanding of Internet technologies, and the support or opportunity offered by a parent company or potential partner.

In contrast, if a company’s management is cautious about investing in new technology, or if the necessary technical expertise or infrastructure is not present, Internet sales channel development is likely to be inhibited. In addition, as DeKare-Silver (2000) notes, the tendency for target consumers to be Internet shoppers is an important consideration for an established retailer contemplating moving online.

The framework developed from this study offers a simple, but useful tool for describing the Internet retailing strategies followed by established retailers as they come to terms with the implications of the Internet. The framework also offers a useful way for retailers contemplating the move online to explore possible strategies
for doing so. Further research is needed to confirm the utility of the framework through its application to other companies and in other geographic contexts. Longitudinal case studies are particularly important if we are to observe the way that retail companies adapt and change their strategies to the dynamic environment of electronic business.
REFERENCES


Enterprise and Innovation
Faculty of Business Research Paper Series

01-2003  SIMON MOWATT and HOWARD COX  Innovation Networks and the Development of Consumer-Driven ICT-Based Management Systems

02-2003  BILL DOOLIN, BOB McQUEEN and MARK WATTON  Internet Strategies for Established Retailers: Five Case Studies from New Zealand

03-2003  ROGER BAXTER and SHEELAGH MATEAR  Measuring Intangible Value in Business to Business Buyer-Seller Relationships: An Intellectual Capital Perspective

04-2003  HOWARD COX and SIMON MOWATT  Technology, Organisation and Innovation: The Historical Development of the UK Magazine Industry

05-2003  CHRISTOPHER BOGGS, BRETT COLLINS and MARTIE-LOUISE VERREYNNE  Examining the Effects of Referent Power on Intrinsic Motivation in Organisations: A Self-Concept Based Approach

06-2003  MARK GLYNN, JUDY MOTION and RODERICK BRODIE  Retailers' Perceived Value of Manufacturers' Brands

07-2003  DERYL NORTHCOTT and LI-CHENG CHANG  The Use of Performance Measurement as an Accountability Mechanism: A Case Study in the UK National Health Service